

Why the opposition?

UN resolution on Myanmar

THE opposition to the resolution adopted by the UN General Assembly on Myanmar is perplexing. The proposal was put forth by the OIC, calling for granting aid agencies access to the Rakhine State and granting full citizenship to the Rohingyas. Despite overwhelming proof that there has been widespread violence (including massacres and rapes) committed against the Rohingya people, it is unfortunate to see countries like Russia and China, which could be key players in brokering a sustainable solution to the crisis, supporting the Chittagong-based resolution. These two major powers are placing more importance on their bilateral relationship with Myanmar than any consideration for the blatant persecution of the Rohingyas and for the impossible burden that Bangladesh, with whom they have friendly ties, is being forced to bear.

What is happening in Myanmar is not just the concern of Bangladeshis; it is a situation that should stir global conscience. Rohingyas continue to face violence and are being driven off their lands on a distorted pretext that they are not citizens of Myanmar. Where the UN's human rights committee stated on November 16 that the situation in Rakhine was similar to "a textbook example of ethnic cleansing," ten nations failed to be moved by the plight of Rohingyas and opposed the resolution. Meanwhile only 34 percent of the USD 434 million needed until February 2018 to provide assistance to the Rohingya refugees in Bangladesh, has been raised. With such stubbornness and inaction, the situation is becoming more and more precarious.

What are we to make of this? That the UN will remain handicapped because some permanent members turning a blind eye to the horrible crimes taking place there? Will the world body stand by and let this carnage continue? By the looks of what happened at the UN general assembly on December 25 that appears to be precisely the case.

Poison in the water we drink

E Coli contamination in jar water

THE findings of a study conducted by the Bangladesh Agricultural Research Council (Barc) this year on the quality of drinking water is horrifying. The study, which used samples of water collected from 24 points in Dhaka, tested the quality of bottled and jar water being sold in the market. A staggering 98 percent of jar water samples was found to contain E. coli.

The E. coli bacteria is responsible for diarrhoea and other water-borne diseases. At the same time, health experts say that the presence of E. coli indicates presence of other bacteria and viruses as well. With the concentration of population in the city, the demand of drinking water continues to increase exponentially, as does the number of companies selling drinking water. According to Barc, many of these companies do not have BSTI authorisation. But, the more worrying fact is that the samples from 150 brands, includes BSTI certified companies as well. The findings are revealing—BSTI certified or otherwise, water jars being sold are definitely not safe for human consumption.

Water producing, bottling and marketing companies require license from multiple authorities to operate. It is a problem that many companies are operating outside this process of monitoring. But, even those operating within the system are not following the standards. As one proprietor pointed out to this paper, minimum cost of a jar would be Tk 70 if the water treatment is done properly. That these jars are being sold for Tk 20 or 30 should highlight the extent of the problem.

It is imperative for BSTI to act immediately on the findings from the study. Unscrupulous business practices and inadequate oversight has raised the most basic of human needs into a health hazard, and criminal action should be taken against these companies. The need for effective monitoring and oversight is clear too. The words of Barc director should remind us of the urgency: "people are buying poison with money in the name of drinking water."

LETTERS TO THE EDITOR

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Congratulations U-15

Women's Football team

Congratulations to the Bangladesh U-15 Women's Football team on winning the SAFF Under-15 Women's Championship tournament, defeating India in the final match. This is a huge achievement for our young stars and an occasion to celebrate for the nation.

Bangladesh Football Federation (BFF) should continue organizing more such tournaments and matches, look for new players, hire professional coaches, build new grounds and look for young players in rural areas in particular. At the grassroots level, BFF should arrange training programmes so that new players emerge. The time will come when these players will end up playing for the national team and achieve similar glory for the nation.

Shafkat Rahman, By mail



PHOTO: FIROZ AHMED

Bangladesh U-15 team celebrates winning the SAFF U-15 Women's Championship.

BANKING SECTOR A house of cards

THE OVERTON WINDOW



ERESH OMAR JAMAL

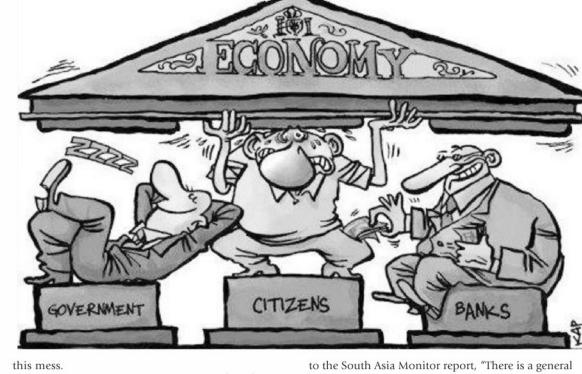
In the last 12 years, only 20 percent of loans written off by banks in Bangladesh were recovered, according to a study by LR Global Bangladesh, an affiliate of New York based L&R Management Investments. The asset management firm also said that Bangladesh has the highest share of non-performing loans (NPLs) and lowest capital adequacy ratio (CAR) when compared to its peer economies. According to its report, non-performing, restructured and rescheduled loans stood at 17 percent of total outstanding loans at the end of 2016, meaning that the financial sector is incapable of absorbing any sudden deterioration of asset quality.

Citing a stress test carried out by the Bangladesh Bank (BB), it said that the top three borrowers in every bank comprised of half of all the bad debt. The report, after pointing out the fact that most of the banks are controlled by a handful of families and their related businesses, said that the government's planned change to extend the tenure of directors from six to nine years, as well as to increase the number of directors allowed on a bank's board from the same family from two to four, would most likely lead to "further consolidation of power in the hands of the few."

Despite the grave implications of the "facts" of the findings, the report did not really reveal anything that was not already known or suspected—that the banking sector is in complete disarray, to say the least. As in absolute terms, the size of NPLs as of 2016 stood at USD 7.8 billion while restructured and rescheduled loans stood at USD 6.7 billion, according to the LR Global Bangladesh report. Yet, according to a report in the South Asia Monitor, "Several senior bank officials...say that there is a huge amount of default loans even outside of this," which "does not appear in any of the statistics" (Default loans deplete Bangladesh banking sector, March 29).

Just let that sink in for a moment. The report then says: "On paper it is shown that these loans or investments are being regularly recovered. Funds for old projects are simply being shown as loans for new projects and adjusted as loan recovery. Loans that are being provided to non-existent projects or hundreds of crore taka are being granted as loans to projects of just a crore or so. The only way to adjust these loans when it is time for recovery is to make allocations for yet another project." In other words, irregularities and corruption in the banking sector have been so severe that it has literally turned into a "Ponzi scheme"—a fraudulent investment operation where the operator generates returns for older investors through revenue paid by new investors, rather than from legitimate business activities.

So how did we get here? According to the finance minister, a party has been borrowing heavily from the market and buying banks. But that is the old tapered over, answer, there is truth to it. The problem is that the truth is much bigger and worse. So, let's look at some of the details of how we got into



this mess.

By now, everyone must be well aware of the fact that the Farmers Bank, despite being relatively young, has been facing severe liquidity crises. Recently, a non-bank financial institution, First Finance, was unable to maintain the mandatory cash reserve with the central bank.

In an investigation carried out by the BB last year, it was found that AQM Faruk Ahmed Chowdhury, chairman of First Finance, had embezzled more than Tk 4 crore through irregularities, including loan forgery (Another non-bank falls prey to graft, loan irregularities, The Daily Star, December 19). Although this forced him to resign from the post of chairman, his replacement happened to be his brother, AQM Faisal Ahmed Chowdhury, who was also found to be an accomplice to the corruption.

Moving on, Welltex Group, the top defaulter of Basic Bank who was permitted to reschedule loans under a "special arrangement" by the BB again turned defaulter in September this year. At the time, the group that was given loans worth Tk 129 crore under the tenure of former chairman Sheikh Abdul Hye Bacchu—who is finally under investigation as per the High Court's directive—by way of irregularities, had Tk 169 crore outstanding with the state-owned bank (BASIC Bank losing battle with default loans, The Daily Star, December 22). Here is the more interesting part, the business group is owned by Majedul Haque Chisty, who just recently had to step down from the board of Farmers Bank because of his alleged involvement in financial scams—as we come to find a full circle.

There are, of course, many more examples of such happenings in the banking sector, while the regulators continue to ponder why bailouts, one after the other, have failed to improve bank's performances. According

to the South Asia Monitor report, "There is a general perception that the central bank is unable to probe into these irregularities due to political intervention. According to sources, a certain business group well known for its powerful political standing, has had Tk 68,000 crore in loans. The group directly and indirectly controls about 10 banks and financial institutions in the country. A few months ago they quietly took over the major private bank of the country too. The directors of the bank are representatives or selected persons of this group... One year ago the group's total credit from...[a] bank was Tk 1600 crore. In just a matter of months this has increased to Tk 4,500 crore."

Mind you, that report came out in March this year.

At the concluding session of the 20th Biennial Conference 2017 of Bangladesh Economic Association in Dhaka, economists and financial market analysts called for an immediate reform to restore some semblance of discipline and honesty in the banking sector. Eminent economist and former Chairman of the Department of Economics of Chittagong University, Dr. Md Sekandar Khan said that things would have been different in the sector had the authorities maintained ethics in their operation.

He said that half of the country's banks would not be able to continue operating if their functions were audited properly. And that, "The banks are still influencing the auditors. They are trying to cover up their liabilities by various means."

Given all of this, it is still unclear see why the banking sector is in such disarray? Certainly not; however, what we also can be certain about is that unless things turn around, and fast, the problems plaguing the banking sector may get so severe that it will be impossible to prop up the house of cards that our banking sector has turned into, for much longer.

Eresh Omar Jamal is a member of the editorial team at *The Daily Star*.

PROJECT ■ SYNDICATE

Monetary policy normalisation in Europe



CARMEN M REINHARDT

WHEN the European Central Bank's Governing Council met on December 14, there was little to surprise financial markets, because no policy changes

could be gleaned from public remarks. The previous meeting, in late October, had already set the stage for the normalisation of monetary policy, with the announcement that the ECB would halve its monthly asset purchases, from Euro 60 billion (USD 71 billion) to Euro 30 billion, beginning in January 2018.

The motivation behind normalisation does not appear to be the eurozone's inflation performance, which continues to undershoot the target of roughly 2 percent by an uncomfortable margin. Inflation expectations, while inching up recently, also appear anchored well below target, despite recent soaring confidence readings. And the ECB's own forecast suggests that it does not anticipate that inflation will breach 2 percent anytime soon.

What about the output gap? In step with the US Federal Reserve, the ECB nudged its growth forecasts higher. In that setting, R-star (the natural rate of interest) may be perceived as drifting up, in line with output moving closer to potential across a broad swath of eurozone economies.

Still, ECB estimates of the 2017 (and 2018) output gap for most of the eurozone countries (Germany and Ireland are notable exceptions) suggest that there is slack, and in numerous cases considerable slack. While German unemployment, now below 4 percent, is at its lowest level since reunification, EU unemployment still hovers around 9 percent. Given this, it appears premature to view fears of eurozone overheating as the main driver of monetary-policy normalisation.

Perhaps there are other motives for normalisation that the ECB doesn't

discuss publicly. Financial stability comes to mind. After all, the Fed does not forecast recessions, and the International Monetary Fund usually does not issue public pronouncements on a country's odds of default. The silence reflects an understandable desire to avoid fueling a self-fulfilling process.

The risks to financial stability from keeping interest rates too low for too long are neither new nor unique to the

percentage gains over the past year.

It is hardly a coincidence, however, that financial stability risks have recently been emphasized by Germany's central bank, the most prestigious of the eurozone's national central banks. In this context, it is important to ensure that policy normalisation in the eurozone does not become Germanisation, which was the *status quo* the last time eurozone conditions were "normal," before the

rules for the eurozone countries from 1992 to 2015.

The main lesson from that exercise is that, from the early days of the euro (1999) until approximately 2010 (when the crisis in Greece and the eurozone periphery erupted in force), ECB interest-rate policy was an extension of the 1992-1998 *Winterschärfen* (DM) policy of the Bundesbank. In effect, the actual Bundesbank/ECB rate moved closely in tandem with the interest rate predicted by a Taylor rule applied to Germany.

By contrast, for all the other eurozone members, there were large deviations between the ECB policy interest rate and the interest rates consistent with the Taylor rule. In the years before the crisis, interest rates were "too low" for eurozone countries, like Spain, that were booming. It is only after the 2010 episode that the ECB policy rate fell substantially and persistently below the interest rate consistent with a Taylor rule for Germany.

While normalisation and the related downsizing of the ECB's bond purchase programme are part and parcel of the long-awaited recovery cycle in Europe, the modalities, magnitude, and speed of execution remain critical, especially when the post-crisis era is placed in historical context. With the exception of Germany, the European recovery from the 2008 global financial crisis has been among the slowest in more than a century's worth of cases.

The ECB would do well to proceed with caution on two fronts in 2018. It must cope with mounting pressure from Germany for a more aggressive approach to normalisation, and it must avoid becoming overconfident about the durability and breadth of the unfolding recovery.

Carmen M Reinhardt is Professor of the International Financial System at Harvard University's Kennedy School of Government.

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The logo of the European currency Euro standing in front of the European Central Bank.

PHOTO: DANIEL ROLAND/APP

eurozone. At the risk of oversimplifying, the gist of these arguments is that ample and inexpensive credit inflates asset-prime bubbles, encourages excessive risk taking, drives up leverage, and may even delay necessary economic reforms.

There is some basis for concern in the eurozone on all these fronts. While debt-service ratios are mostly low, that could change when interest rates rise. Moreover, property prices are increasing rapidly in some locales, and a few broad share indexes posted double-digit

financial crisis.

The Taylor rule (proposed by the Stanford University economist John Taylor in the early 1990s) is often used to describe central banks' interest-rate policies. Specifically, the rule shows how the policy interest rate responds to changes in inflation, the gap between potential and actual output, and other economic conditions. As part of a larger focus on exchange-rate and monetary policies worldwide, my recent study with Ethan Ilzetzky and Kenneth Rogoff presents estimates of individual Taylor

models. The ECB would do well to proceed with caution on two fronts in 2018. It must cope with mounting pressure from Germany for a more aggressive approach to normalisation, and it must avoid becoming overconfident about the durability and breadth of the unfolding recovery.

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